TEACHERS' SUPERANNUATION COMMISSION

SEVENTY-TWO YEARS OF SERVICE

FINAL REPORT
PRESENTED BY R. E. POSTE, CHAIRPERSON
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EXECUTIVE SUMMARY

The Teachers' Superannuation Commission has been evolving, alongside changes in pension and income tax regulations, for 72 years.

Since 1983, major new pieces of legislation have had a significant impact on the workload and structure of the Commission. This period of change and adjustment will continue well into the 1990s with the introduction of the Teachers' Pension Act and other acts in 1989 and 1990.

Other external factors have affected the work of the Commission. For example, the aging workforce and its changing attitude toward pensions has led to a larger number of pensioners and an increasing demand for better service.

Within the Commission, the staff has identified two significant areas in need of attention as a result of the recent flurry of legislation. In the area of technology, major inroads were made in upgrading hardware, telecommunications and other office automation, but the modernization of applications software has lagged behind. In the area of human resources, the number of staff grew as the administration of the plan grew more complex, and the development of management skills is essential.

In response to these internal needs, the Commission has developed the Information Technology Strategic Plan and a management skills training program. Substantial funds were committed to both these programs in 1989, and it is hoped that the Ontario Teachers' Pension Plan Board will continue this commitment.

The Commission has prepared briefing notes for the board on some outstanding business. On these issues, the Commission recommends that:

- a more comprehensive arrangement be made with our bank to reflect the new board's broader powers and that, at an appropriate time, a contract for banking services be tendered to a wide range of financial institutions;
- the provisional 1990 administrative budget be incorporated into the board's overall 1990 plan;
- the board immediately issue a request for proposal for actuarial services;
- the board proceed as quickly as possible on three ongoing litigation cases;
- the conflict of interest guidelines be expanded to cover investment activities;
- member appeals be conducted as soon as possible.

1. INTRODUCTION

This report is presented to the Ontario Teachers' Pension Plan Board from the Teachers' Superannuation Commission, summarizing the 72 years of service provided to plan members by the Commission and previous boards. It outlines the history of the plan, with an emphasis on recent challenges, achievements, frustrations, and the fundamental principles by which the Commission has conducted its business. The report also provides an overview of the issues which will require the immediate attention of the new board.

This document marks not just a transition between boards but the beginning of a new era, as the Commission is transformed into a full service pension plan administrator. For the first time, the board, not the Treasurer of Ontario, will be responsible for the management of plan assets.

Today, the plan serves about 151,000 active members and 38,000 pensioners. On December 31, 1989, the plan had assets of about $17 billion. The efforts of generations of teachers and government representatives, who have strived to manage the plan responsibly and effectively, have made this the best teacher pension plan in Canada. The future of the Ontario Teachers' Pension Plan is very bright indeed.

2. HISTORY OF THE PLAN

The provision of pensions to teachers in Ontario predates Confederation. In 1871, contributions to the Ryerson Superannuation Fund were made compulsory for male public school teachers, but remained optional for female and high school teachers. In those days, the minimum contribution was $4 per annum and teachers could retire at 60 with a pension of $6 per annum for every year of service.

In 1885, however, the Ryerson fund was closed to new teachers. The Ontario Teachers' Association, eager to establish a superannuation scheme for teachers, subsequently formed a committee to represent the views of teachers across the province. Negotiations between this committee and the government continued for several years until a new plan was established in 1917 under the Teachers' and Inspectors' Superannuation Act. This was the beginning of the plan as we know it today.

Under the act, teachers accumulated pension benefits at the rate of 1.66 per cent of annual salary for post-1917 service and half that rate for pre-1917 service. These details are still relevant today – the Commission recently received a pension application from an 89-year-old woman who had worked from 1914 through 1934. She became entitled to a pension in 1966, but hadn't claimed it. Needless to say, she received a substantial sum in retroactive pension.

In 1920, the Teachers' Superannuation Fund was created and Government of Ontario securities were issued for the money on deposit with the Treasurer of Ontario, the custodian of the fund.

In 1945, the name of the act was changed to the Teachers' Superannuation Act (TSA), and full pensions became payable after 40 years of service, regardless of age.

The 1960s and 1970s saw a number of changes to the TSA. In 1966, the act was amended to reflect the integration of the fund with the Canada Pension Plan (CPP). Other changes included a move to calculate pensions based on the best seven instead of the best 10 years, and a substantial investment was made in computerization. In 1971, the "90 Factor" was introduced

as the method of determining the earliest possible date for an unreduced pension.

In 1975, the Superannuation Adjustment Benefits Act was passed and the Superannuation Adjustment Fund (SAF) was created. The Commission did not have the authority to manage the SAF but was responsible for collecting contributions and distributing benefits.

In 1983, the TSA was completely rewritten and altered the history of the plan. The major changes included:

- calculating pensions based on the best five years' average salary rather than the best seven;
- expanding opportunities for the purchase of additional credit by removing time limits and including position-sharing as an eligible break in service;
- improving benefits for part-time teachers and teachers with less than 10 years' credit;
- raising both the teacher and government contribution rates from 6.0 to 6.9 percent of annual salary.

Since then there have been several amendments to the TSA and corresponding regulations. And now, with the passage of the Teachers' Pension Act, 1989, the Ontario Teachers' Pension Plan Board has been created.

3. THE ROLE OF THE COMMISSION

The Commission has striven to provide contributors, pensioners and the government with the best possible service consistent with prudent management practices.

The Teachers' Superannuation Act, 1983, states: "It is the duty of the Commission to manage the affairs of the Commission, to administer this act and to advise the minister on matters related to the affairs of the Commission or the administration of this act."

The Commission has developed the following statement of its role:

- to administer the act and regulations with care;
- to communicate effectively with members, pensioners, employers, federations and ministries;
- to ensure that entitlements under the act and regulation are determined consistently and fairly;
- to manage the affairs of the Commission efficiently and effectively;
- to establish and evaluate policies and ensure the integrity of the Commission's operations;
- to advise the minister on matters related to the affairs of the Commission or the administration of the act and regulations.

It is with pride that we pass this role and these responsibilities on to the Ontario Teachers' Pension Plan Board.

4. EXTERNAL CHALLENGES

4.1 TEACHERS' PENSION ACT, 1989

One of the first priorities of the board will be to ensure a smooth transition between the Teachers' Superannuation Act, 1983, and the Teachers' Pension Act (TPA), 1989.

The TPA, which finally brings the plan in line with the Pension Benefits Act, 1987, and attempts to rectify past inequities, is not without difficulties. No legislation of this magnitude and complexity can be problem-free.

The TPA will have an impact on almost every area of the organization. Most significantly, it will create the additional function of managing market investments, bringing with it the challenge of developing an effective open-market investment program.

As in past years, it is critical that the board adapt quickly to the changes while maintaining a high level of service to members.

4.2 PENSION BENEFITS ACT, 1987

Implementing the existing Pension Benefits Act (PBA), 1987, continues to be a challenge. Commuted value, 50 per cent tests, maximums on splitting benefits under marriage breakdown, and definitions of member and plan status are all issues that continue to make the administration of the plan very complex.

One result of the complexities of commuted value calculations is that the testing of all pensions incepted since 1 January 1988, to ensure that the member has not contributed more than 50 per cent of the benefit, will not be completed until early 1990.

A new set of challenges awaits the board. Amendments to the PBA are expected in 1990 and the board must ensure and demonstrate that the plan can quickly comply with the forthcoming legislation. Despite the magnitude of the changes, they will, by and large, be helpful to the administration of the plan.

4.3 INCOME TAX ACT

Amendments to the Income Tax Act were tabled in December 1989 and were effective as of 1 January 1990. The new legislation will require the proper reporting of pension adjustment (PA) and pension adjustment reversal (PAR) figures in 1991.

The Commission staff has put a tremendous effort into the analysis of the proposals to date. This has resulted in changes to the legislation which will ease the administration of multi-employer plans such as this one.

The board must quickly finalize the analysis of necessary changes to internal procedures and issue instructions to school boards. Given the complexity and widespread effect of income tax legislation, a delay in resolving the issues or processing the data would make recovery very difficult for all concerned.

4.4 FAMILY LAW ACT, 1986

Much has been written about the Family Law Act, 1986, and the impact of marriage breakdown on the splitting of pensions. Suffice it to say that the Family Bar has been slow in familiarizing itself with the complex and technical aspects of pensions. However, members of the Bar are now held accountable to their clients, for whom they must either provide or obtain sound advice.

The Commission has not provided individual legal advice, choosing rather to respond to direct questions about specific features of the plan. Similarly, the Commission has refused to give estimates of the value of the pension benefits during marriage, given the difficulty of choosing the economic assumptions on which to base the calculation. Rather, plan members must request the necessary documents and data from the Commission and then hire a private actuary at considerable cost to calculate the value of their pension accrual during marriage.

4.5 FRENCH LANGUAGE SERVICES ACT, 1986

Long before the passage of the French Language Services Act, 1986, the Commission responded to client demands to provide services in both English and French. However, the act was an excellent incentive to review and update that commitment.

The Commission's services in French were

reviewed in 1987, and again in 1989, by the French Language Services Co-ordinator of the Ministry of Education. It is clear that the level of service more than meets the minimum requirements. The recent increase in the number of staff in designated bilingual positions has further increased the level and quality of service.

4.6 TEACHERS' SUPERANNUATION ACT, 1983

As previously mentioned, the rewriting of the TSA in 1983 resulted in major changes to the plan.

The reopening and broadening of opportunities to purchase optional credit was an extremely attractive option to teachers. Similarly, many teachers took advantage of an "open-window" option, which was introduced in 1986 to allow teachers to take an early retirement without a reduction in their pension. This "open-window" closed in August 1989, causing the 1989 "pension rush" detailed later in this report.

Another provision granted members the right to retire with an unreduced pension if they had 35 years of service, regardless of whether or not they had attained the 90 Factor. This "35 and out" option ends in August 1990.

In 1987, a provision was made to improve benefits to those receiving a low pension. The increase was determined by a very complex formula based on years of service and an approximation of the CPP amount the pensioner was receiving.

4.7 INCREASED DEMAND FOR SERVICE

The new pension provisions outlined above caused an explosion in the demand for service from the Commission. The annual number of approvals for the purchase of additional credit escalated from a few hundred to 10,000 in the space of a year and has hovered around that level ever since.

Table 1 shows the dramatic increase in Commission activity in the six-year period since 1983. Some measures have doubled, tripled and even quadrupled. Optional credit purchases have grown by a factor of six.

As the future brings an even greater number of

TABLE 1
MAJOR TRANSACTIONS AND STAFFING - RECENT GROWTH*

	1983	1984	1985	1986	1987	1988	1989[e]
TOTAL PENSIONS	23.8	25.2	27.0	29.2	31.6	33.6	37.4
NEW PENSIONS	1.7	1.8	2.2	2.8	3.2	2.9	4.6
PENSIONS RECALCULATED	0.4	0.4	0.5	0.6	0.8	0.9	0.9
REFUNDS	1.7	1.8	2.1	1.8	1.4	0.8	0.8
OPTIONAL CREDIT APPROVALS	1.5	1.5	10.5	9.2	9.3	9.2	9.6
MAIL	53.6	67.9	78.7	109.5	113.1	136.0	227.1
PHONE CALLS	83.0	94.8	85.0	106.5	118.6	197.4	220.0
TOTAL STAFF COMPLEMENT	109	111	116	141	163	208	246
COUNSELLOR COMPLEMENT	6	6	6	7	12	12	16

[e] estimated

* all numbers in thousands except staff complement lines

TABLE 2
MAJOR TRANSACTIONS - ESTIMATED FUTURE GROWTH*

	1990	1992	1994	1996	1998	2000
Total Pensions	39.1	42.7	46.3	51.1	56.3	61.3
New Pensions	2.9	3.0	3.0	3.9	4.6	5.5
Optional Credits	9.0	12.0	8.4	9.2	10.2	11.3
Mail	239.0	258.0	225.0	248.0	274.0	301.0
Phone Calls	231.0	253.0	217.0	239.0	263.0	290.0

* all numbers in thousands

pensioners, so too will the number of transactions continue to grow. Table 2 and Figure 1 project the growth of significant areas of Commission activity to the year 2000.

The Commission is in the midst of the greatest volume of pension inceptions in its history. Approximately 4,600 members retired in 1989. Figure 2 shows the cycle of pension inceptions by month in the years 1987, 1988 and 1989. By 1990, the peak in the number of retirements should be over, but the process of completing late and difficult cases may linger. Certainly, the recalculation of estimated pensions will continue to be an administrative challenge.

The number of pensions in pay in 1990 will have grown to approximately 39,000, an increase of 60 per

FIGURE 1

Growth Measures of Major Commission Activity
Base 1985 = 100

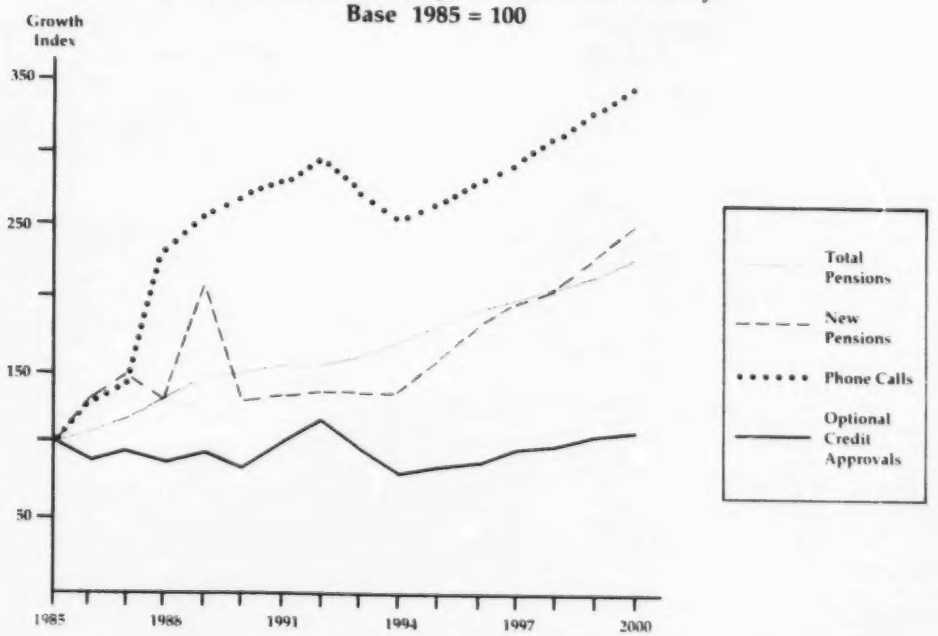
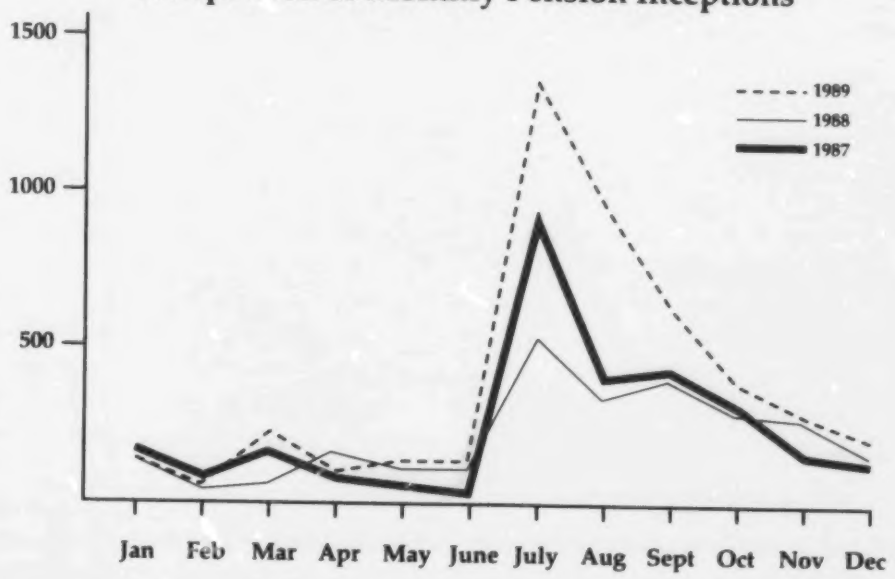


FIGURE 2

Comparison of Monthly Pension Inceptions



cent since 1983. And this number will continue to grow as a result of the aging Canadian workforce in general, and the teaching profession in particular. The task of serving an ever-increasing pensioner client group has had a substantial impact on the workload of the Commission.

The Commission is constantly faced with the possibility that some benefit or tax rule may change, affecting most, if not all, pensioners. The Commission needs effective techniques and sufficient resources to be able to adjust rapidly to such a situation while maintaining its service to pensioners.

Furthermore, teachers' attitudes towards their pensions are changing; as they get closer to retirement age, they are taking a more active interest in the value and obligations of their pension plan. Several high-profile court cases dealing with the ownership of the actuarial surplus have also been instrumental in sparking a higher level of interest in broader pension issues.

It is critical that the board not only maintain present capacities for delivering service, but demonstrate substantial improvement as well. Projects described later in this report must be continued if the obligations to the members and pensioners are to be met in the immediate and longer terms.

5. INTERNAL ISSUES AND ACHIEVEMENTS

5.1 1989 "PENSION RUSH"

The "pension rush" of 1989 occurred, as predicted, with the closing of the "open-window" option in August. It serves as a shining example of how the organization was able to process the unprecedented number of pension applications while still maintaining a high level of service to pensioners.

Between July and September 1989, the Commission added over 3,000 new pensioners to its roll, bringing the year's total to approximately 4,600. The previous record for a year was 2,800.

Many techniques were used to maintain high levels of service: advancing payments to those who would not have otherwise received their pension on time; changing computer schedules to run twice as many pension calculations; improving the co-ordination of production between departments; projecting average salaries and validating the actual data in 1990; and actively soliciting information missing from pension applications.

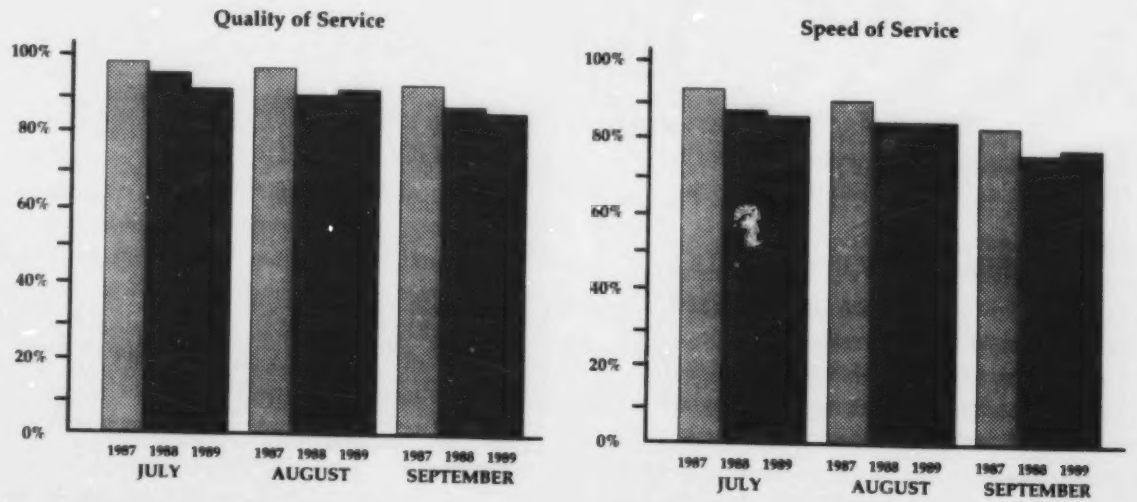
All of these initiatives, combined with a lot of hard work, paid off. The results speak for themselves. Every new pension recipient receives a Quality Service Survey card and returns it anonymously to the Commission. The responses are tabulated to create an index of client satisfaction. Figure 3 shows the level of satisfaction for the critical months of July, August and September.

Stated another way, while the levels of satisfaction stayed high, the Commission satisfied unprecedented numbers of new pensioners.

The Commission is very proud of its achievement in the spring and summer of 1989. A more detailed report is available, entitled "A Report of the Production Committee on Client Service provided in 1989."

FIGURE 3

Comparison of Satisfaction Survey Results



5.2 GROWTH IN INTERNAL PROFESSIONAL SERVICES

The Commission has long been noted for its high quality of benefits and service. The increasing demands on the Commission have created a need for more professional staff in order to maintain this level of quality.

Recent effort has concentrated on expanding the managing/analyzing group of staff. In January 1988, the Commission restructured into two divisions, each with a director, to streamline its increasingly complex operations and specialized staff.

In 1987, the Commission hired professionally designated accounting personnel, as well as a lawyer and an internal auditor.

The services of an in-house lawyer have proven to be invaluable in dealing quickly and effectively with the rapid growth in cases of marital breakdown and the need for detailed analysis of pending and past legislation.

Similarly, internal audit services have increased tremendously the organization's professional capacity. The Commissioners have received assurances on matters of financial concern that only an extensive internal audit program could provide. Furthermore, thorough value-for-money audits have identified several opportunities for streamlining Commission work processes.

The Commission has been reluctant to increase staff beyond the demonstrated need, despite the fact that the Commission's responsibilities have grown at a remarkable rate. The number of staff rose from 109 in 1983 to 246 in 1989, but extra time and effort on the part of each staff member has still been necessary to bridge the gap between the volume of work and the staff resources.

5.3 ADMINISTRATIVE SOPHISTICATION

Although there will always be reason to strive for improvement, the Commission has come a long way towards internal administrative excellence in the last few years. The administrative budget process has matured significantly with the advent of a strategic planning process. This process is tied to business needs, and focuses on service standards for all staff to follow.

The budget is prepared on a business case approach, with all new initiatives justified in terms of tangible and intangible benefits and assessed for the risk of not undertaking.

The Commission has adopted the spirit of the Management Board of Cabinet Guidelines and Directives to guide its administrative practices, despite the fact they do not extend to this agency. In addition, substantial work has gone into developing a standard request for proposal and model agreement for the acquisition of professional services. It has been used successfully for systems resources, external audit, actuarial services, management consulting and management training acquisitions.

5.4 MANAGEMENT SKILLS DEVELOPMENT

Over the years, the Commission has earned a reputation for care, concern and service. With the rapid increase in the work volume and the size and structure of the organization, new training in management skills is essential to the continued commitment of quality service. To this end, the Commission has allocated over $100,000 to the development of managing skills in 1989 and 1990.

It is imperative that the board continue this program throughout the transitional period of 1990 and beyond. In so doing, the board will ensure that the organization will be more than capable of meeting the challenges of the coming decade.

5.5 1988 RELOCATION TO MODERN OFFICE FACILITIES

In anticipation of the 1989 "pension rush", the Commission moved from very cramped quarters to bigger and better facilities. In early 1988, the organization moved from 190 Finch Avenue West and temporary quarters at 90 Sheppard Avenue East to a single location at 5650 Yonge Street. The move was made in anticipation of the changes 1989 would bring and the rapidly increasing obligations in the pension field that will arise in the coming years.

The new offices and equipment are state-of-the-art.

Every work station is pre-wired for telecommunications and computer terminals. The phone system can handle well over 30,000 calls per month; recently the number of calls reached 23,000, but has been diminishing slightly as the staff catches up on its work.

The phone system also enabled the Commission to develop a very sophisticated telephone information service, called Phone-a-Memo, which operates 24 hours a day in both English and French. Under this system, members and pensioners across the province can use touch-tone phones to access over 80 different messages describing plan features and methods of applying for benefits. Callers may also leave a message requesting more information, an application form or a callback.

5.6 INFORMATION TECHNOLOGY STRATEGIC PLAN

New technology is crucial in providing the improvements in productivity necessary to cope with the rapidly increasing complexities of administering the plan and the long-term growth in the pensioner population. Currently, computer systems are difficult, expensive and slow to change.

The Information Technology Strategic Plan (ITSP) was initiated in response to this issue. The total replacement of all existing systems, the integration of similar functions and the application of the latest techniques in systems design and development will allow for more flexibility in the future.

The Commission's new location has ensured that the telecommunications infrastructure necessary for implementing the ITSP is already in place. The ITSP consists of three phases: planning; analysis; and, the most costly of the three, construction, development and implementation.

Phase 1 used selected methodology provided by the consulting firm Woods Gordon to gather information about the organization's current processes and information systems. Phase 1, completed in October 1989, afforded the Commission the opportunity to formally articulate its goals and critical success factors, thereby providing a common view for all staff. Seven major areas of business and four key technologies were identified for further analysis in Phase 2. A budget of $975,000 has been approved by the Commission for the second phase of the project, which will begin in January 1990 and is expected to last about six months. The goal of the detailed analysis is to determine specific business needs and select appropriate technology in preparation for the third and final implementation phase. Although the details of Phase 3 have not yet been defined, its two-year implementation reflects the need for a budget of approximately $6 million. Continued financial support is crucial in ensuring the successful realization of the ITSP and the new corporate vision it represents.

5.7 AWARD-WINNING COMMUNICATIONS PROGRAM

The Commission set out as early as 1985 to keep members apprised of the growing complexities of the plan by dramatically improving the quality and frequency of its communications materials.

A professional communications consultant was contracted to conduct a two-day seminar examining all forms of communication. Many different mediums were considered - even TV Ontario - as ways to communicate with members. In the final analysis, the print medium was chosen as the primary source of communication, with the Phone-a-Memo telephone system as a distant hope for the future.

In 1986, the Commission hired the communications services of a major benefits consulting firm for a period of three years. Its mandate was to dramatically improve the Commission's communications program and to establish an in-house communications department in 1989.

The program got underway in earnest in the fall of 1986, when focus groups were conducted with teachers and boards to determine how much they knew about the Commission and to identify gaps in that knowledge. Much planning led to the production of a number of publications, including a brochure which won an international award in 1989 from the Government Finance Officers Association of the United States and Canada. The brochure was among 400 entries.

The newly established communications department produces the Commission's annual report and a variety of brochures, as well as regular newsletters aimed at the Commission's four audiences: plan members, pensioners, employers and employees. The department is also responsible for the Phone-a-Memo system and plans to produce a new video to educate members about their pensions.

The Commission is very proud of the communications materials it has produced in three years.

5.8 AMOUNT OF POLICY INPUT

There is a process currently in place whereby members, represented by the Ontario Teachers' Federation, can meet the Ontario government to discuss policy initiatives. The Commission, however, is only brought into the process at the legislation writing and implementation stage.

The major shortcoming of this approach is that the Commission does not have the opportunity to streamline the administration of the plan from the beginning. This kind of input would lessen the impact of new and changed policies on administrative practices, ultimately improving service to members.

Rarely in any organization is policy driven or determined by administrative convenience. However, it is ironic that the administrator is excluded from the early discussions, as this is the body that can often make the most constructive suggestions.

The Commission has been very proactive in reviewing, analyzing and providing advice on recent documents and proposed legislation, such as the Rowan and Slater reports, Bill 66, and amendments to the Income Tax Act.

The Commission staff will continue to push for early input into all matters affecting the administration of the plan.

6. FRUSTRATIONS

The rapid growth in the volume of work was described earlier. Figure 4 indicates the impact on the budget of the Commission over time and compares the budget to net benefits paid and total pensions.

It is clear that the cost of administering the plan has grown at an even faster rate than the amount of net benefits paid. While the 1989 amount of net benefits paid was 252 per cent of the 1984 amount, the 1989 administrative expenditures were 360 per cent of the 1984 expenditures.

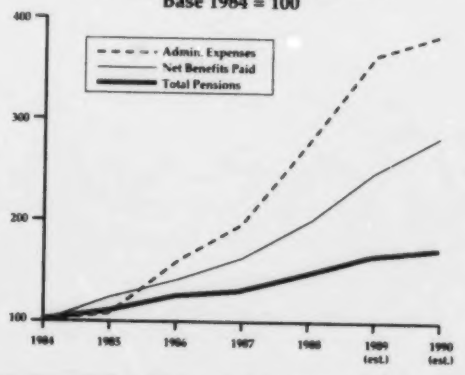
The increase in administrative expenditures in the past few years was also a function of the dramatic increase in the number of optional credit applications to be processed as well as of the move to leased accommodation.

Aware that all of its recent growth occurred during a period of austerity in most public and private sector organizations, the Commission was frustrated that it could not curtail expenditure further without causing a corresponding reduction in the level of service.

However, there is some evidence that this increase in costs is now levelling off. In fact, the 1990 administrative budget was only 5.6 per cent greater than 1989, despite the million-dollar investment in new technology. A substantial decrease in real future costs is expected as a result of the full implementation of the ITSP.

FIGURE 4

Comparison of Administration Budget to Net Benefits Paid and Total Pensions Base 1984 = 100



7. FUNDAMENTAL PRINCIPLES

The Commission recently restricted itself to concentrating on the activities it felt were critical in serving plan members and the government. It achieved this by restructuring the organization and delegating much of its previous preoccupation with detail. The Commission committed itself to the following critical success factors:

- quick, correct and courteous response to inquiries and applications for benefits;
- competent processing and implementation of benefits;
- effective, efficient and economic management processes and reliable reporting mechanisms.

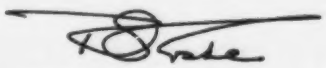
Various indicators were also devised to enable the Commission to measure its success in these areas. The staff has been submitting quarterly reports to the Commissioners on this.

These critical success factors represent the fundamental principles by which the Commission has conducted its business. The Commission encourages the new board to maintain them.

8. CONCLUSION

After 72 years, the pension plan is beginning a new era. The record shows that the Ontario plan is one of the best funded teacher plans in Canada. The Teachers' Pension Act, 1989, with its goal of putting this plan on a more solid financial footing, can only enhance that position.

The Commission wishes the new board well, and concludes this report with briefing notes on some unfinished business requiring the early attention of the board.



R. E. Poste, Chairperson

APPENDIX

ISSUES REQUIRING THE EARLY ATTENTION OF THE BOARD

A.1 INVESTMENT PROGRAM

BACKGROUND

While the Commission did actively manage and invest its short-term cash needs (over $100 million), it did not have the mandate for making long-term investments. Despite clear direction from the government that the Commission need not concern itself with market investments, a plan was developed to move net cash flows, on an interim basis, into relatively risk-free investments such as T-bills and bank deposits. This plan, together with recommendations for government consideration, was forwarded to the Minister of Education. Clearly the matter is of the utmost importance to the new board.

The Commission will be ready to do its part in investing net cash flows starting 1 January 1990, with a view to preserving the capital. Staff members are now working closely with the government's transition team in this respect.

CURRENT STATUS

Additional work on interim strategy is continuing on an informal basis through discussions with our current financial advisors and service providers.

The director has been seconded to the Ministry of Education's transition team to represent the Commission's interest.

RECOMMENDATION

None

A.2 BANKING RELATIONS

BACKGROUND

The Commission ran its business through one bank account and negotiated the service charges each year. This was adequate because the banking services required by the Commission in the past were limited. However, the banking arrangements required by the new board are likely to be much more extensive.

CURRENT STATUS

The current limited contractual arrangements come to an end in December 1989.

RECOMMENDATION

Immediately negotiate suitable banking arrangements with the current bank for a limited period on areas needing more attention, such as custodial services. When appropriate, tender a contract for banking services to a wide range of financial institutions.

A.3 1990 BUDGET

BACKGROUND

Establishing the 1990 administration budget was a challenge, given the number of unknown elements. In the long term, the investment program could be run as a self-supporting activity, using the revenue gained from the spread between the returns from the provincial debenture and open-market rates. Initially, however, funds will have to be provided to explore and establish the investment program.

Benefits administration is determined by the level of service and the level of productivity. In the long term, the Information Technology Strategic Plan (ITSP) will substantially increase productivity and improve service standards. In the meantime, there is a commitment to achieving existing service standards by the end of 1989 and to continuing the ITSP project. To improve these substantially in the short term would require an increase in staff. This is not recommended.

The Commission established budget guidelines in August. Duties, responsibilities and standards were established in September, and the budget was set in October and November.

CURRENT STATUS

The staff is proceeding according to the plan contained in the 1990 administrative budget, as provisionally approved by the Commission in the absence of the new board.

RECOMMENDATION

Incorporate the 1990 administrative budget into the 1990 funding plan which the board develops for its overall responsibilities.

A.4 ACTUARIAL SERVICES

BACKGROUND

The Commission regarded its responsibility to oversee the conduct of actuarial valuations as a very serious one. The contributors –both the teachers and the Ontario government – must be convinced that the fund is actuarially sound and fairly valued.

Each year a sub-committee of the Commission held extensive meetings with its actuaries and government and teacher representatives to assess the actuarial well-being of the fund and to address concerns. The valuation for 1988 showed an actuarial deficit of $56 million.

The 1986 valuation was a landmark in that the actuarial approach toward assets was changed from the "write-up" method to the "streamed approach". The latter is the approach used in valuing the Public Service Superannuation Fund in Ontario. The move in 1990 to valuing assets on a market value basis will be even more dramatic.

Under the Teachers' Superannuation Act, 1983, the Minister of Education was responsible for determining which actuarial reports were to be filed with the Pension Commission of Ontario. This may change with the new Teachers' Pension Act, but at the time of writing this report the governance of the plan had not been finalized.

A request for proposal for actuarial services was underway in the spring of 1989 when the government and the Ontario Teachers' Federation requested suspension of the process, pending the appointment of the new board. The proposals were returned to the bidders unopened. A new request could be issued very quickly.

CURRENT STATUS

The 1988 actuarial valuation was completed at the end of 1989 and has been forwarded to the Minister of Education.

RECOMMENDATION

Conduct a request for proposal for actuarial services as soon as possible in order to prepare for the 1989 valuation required under the TPA, 1989.

A.5 ONGOING LITIGATION

Various features of the TSA, 1983, have been challenged in and out of court. External legal counsel was retained in all of the following cases.

BACKGROUND AND CURRENT STATUS

ACTIONS AGAINST THE COMMISSION

Calculation of Early Retirement Pensions

The calculation of early retirement pensions where a pensioner will ultimately receive CPP benefits is currently the subject of three legal actions.

Following the introduction of the TSA, 1983, the Commission made a change in its method of calculation that resulted in higher pensions. The Commission's auditor raised a question of interpretation which was referred to the government's legal counsel and then to the Minister of Education. The Commission was considered to be contravening the act and was requested to comply with it. This resulted in the reduction of approximately 1400 pensions by an average of about $30 per month.

In one case the Commission has moved for the determination of the point of law at issue. The parties in the two other cases are awaiting the outcome of the first, but could request discoveries at any time.

Application for Judicial Review

An applicant for a disability pension under the TSA,1983, has applied to the court to review the Commission's denial of his application. Because the parties involved expect the TPA to resolve the issue, they are not proceeding with this application.

ACTIONS FOR THE COMMISSION

Collections

In one case, a university has refused to remit contributions for members of its faculty of education who teach part-time. Proceedings will be commenced before the TSA,1983, is repealed.

A second case involves alleged fraud by the son of a deceased pensioner. The man continued to receive and spend his mother's pension after her death. Security is in place to support the debtor's agreement to repay the remaining $100,000. No proceedings will be commenced unless there is a default, but the Commission's staff may have to appear as witnesses in criminal proceedings.

RECOMMENDATION

Proceed on all three fronts as rapidly as possible.

A.6 CONFLICT OF INTEREST GUIDELINES

BACKGROUND

In order to comply with the requirements of paragraph XIX of Commission By-law I, a Commissioner must advise the chairperson that he or she may have a conflict of interest at the earliest opportunity after the Commissioner perceives the conflict of interest, whether direct or indirect, whether actual, potential or only apparent to others. A conflict of interest may arise when the Commissioner has:

- a personal interest in a matter before the Commission. Personal interests include self interests, the interests of members of the Commissioner's family, acquaintances, or of organizations to which the Commissioner owes an overriding allegiance;
- directly assisted an appellant or other applicant before the Commission in the preparation of materials under consideration by the Commission in the course of an appeal or application;
- given assurances to a member or other interested party as to the decision the Commission is likely to reach on a matter before the Commission; or
- received direction to vote for a particular outcome on an issue before the Commission, and is prevented from considering the issue independently.

CURRENT STATUS

The Commission has been using these guidelines for the conduct of its business, especially in the area of appeals adjudication.

RECOMMENDATION

Given the increased exposure of the Commission from market investment activities, expand these guidelines to cover financial interest in investment areas.

A.7 APPEALS PROCESS

BACKGROUND

When members of the pension plan disagree with a decision of staff regarding their pension calculation or eligibility, they can appeal this decision to the Commission. The number and complexity of appeals has increased significantly in recent years, often necessitating legal advice for both parties.

The appellants and their advisors may submit the appeal in writing; however, many choose to appear before the board in person to state their case. Members of the board may ask questions to ensure they fully understand the situation and, after the appellant leaves the room, discuss the validity of the appeal. Their authority to grant an appeal is limited to the rights defined in the legislation. Commissioners have often been caught between their personal sympathies for an individual and their limited authority to change a seeming injustice.

The Commission revised and enhanced the appeals process in 1989 to include three stages, so that the more straightforward cases could be dealt with by the directors. They also made a commitment to share as much information as possible with the appellant, including reasons for staff judgements at each step of the process.

If appellants are not satisfied with the decision of the Commission, they may appeal to the Pension Commission of Ontario, the Ombudsman and, ultimately, the courts.

CURRENT STATUS

The Communications Department is preparing a brochure for the spring of 1990 to inform members of their new options. Most outstanding appeals have been dealt with, and none were scheduled for January 1990.

RECOMMENDATION

That the board prepare to conduct appeals as soon as possible to avoid delaying the process.

A.8 OPTIONAL CREDIT PURCHASES

BACKGROUND

Recently the Commission has dealt with a number of appeals which were denied but which caused some concern.

Commission practice has been to interpret section 7 of Regulation 423/84 under the TSA to permit the purchase of one year of maternity leave for each leave of absence or break in service, to require such leave or break to have been taken from a contract teaching position and to require at least 20 days of teaching under contract between such leaves or breaks. While the minister has indicated his support for this interpretation, there appear to be a number of inequities, some of which may be remedied through the provisions of the new Teachers' Pension Act, 1989.

The foreign and Commonwealth service provisions in sections 8 and 9 of the same regulation refer to similar service. Over the years, some purchases have been granted on appeal, which raises the issue of the intent of "similar service". While not directly related to these provisions, denials of appeals for the purchase of credit for teaching service in Ontario, particularly in private schools prior to earning teaching qualifications, caused the Commission to question the consistency of the provisions for the purchase of credited service.

CURRENT STATUS

The staff is currently reviewing the matter of "similar service". The staff is also developing guidelines to enable them to approve purchases of credit which previously were referred to the Commissioners. Both matters will be brought to the board as an amendment to the bylaws which delegate certain responsibilities to staff.

RECOMMENDATION

None